

BEFORE THE

Illinois Commerce Commission

DOCKET NO. 00-0161

IN THE MATTER OF:

MJD COMMUNICATIONS, INC.,
ODIN TELEPHONE EXCHANGE, INC.,
C-R TELEPHONE COMPANY,
EL PASO TELEPHONE COMPANY, and
YATES CITY TELEPHONE COMPANY

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SULLIVAN REPORTING COMPANY

OFFICIAL REPORTERS

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BEFORE THE
ILLINOIS COMMERCE COMMISSION

MJD COMMUNICATIONS, INC.,) DOCKET NO.
ODIN TELEPHONE EXCHANGE, INC.,) 00-0161
C-R TELEPHONE COMPANY,)
EL PASO TELEPHONE COMPANY, and)
YATES CITY TELEPHONE COMPANY)
Joint Application for approval of the)
right to convert Series D Preferred)
Stock and Class B Common Stock of MJD)
Communications, Inc., to Class A)
Common Stock of MJD Communications,)
Inc., and for other relief.)

Springfield, Illinois
April 17, 2000

Met, pursuant to notice, at 1:30 P.M.

BEFORE:

MR. DONALD L. WOODS, Examiner

APPEARANCES:

MR. DENNIS K. MUNCY
306 West Church Street
Champaign, Illinois 61820

(Appearing on behalf of the Joint
Applicants.)

SULLIVAN REPORTING COMPANY, by
Carla J. Boehl, Reporter
Ln. #084-002710

APPEARANCES:

(Cont'd)

MS. WANDA HENSLEY
MR. MICHAEL McNALLY
Financial Analysis Division
527 East Capitol Avenue
Springfield, Illinois 62701

(Appearing on behalf of the Staff of the
Illinois Commerce Commission.)

MR. ROBERT KOCH
Telecommunications Division
527 East Capitol Avenue
Springfield, Illinois 62701

(Appearing on behalf of the Staff of the
Illinois Commerce Commission.)

I N D E XWITNESSESDIRECT CROSS REDIRECT RECROSS

TIMOTHY W. HENRY

By Mr. Muncy

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I N D E XEXHIBITSMARKEDADMITTED

Joint Applicants' A

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Joint Applicants' B Proprietary

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Joint Applicants' C Proprietary

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Joint Applicants' D

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Joint Applicants' E

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ICC Staff 1

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PROCEEDINGS

(Whereupon Joint Applicants' Exhibits A, B Proprietary, C Proprietary, D and E were marked for purposes of identification as of this date.)

EXAMINER WOODS: Call for hearing Docket 00-0161, MJD Communications, Inc., et al., a joint application for approval of the right to convert Series D Preferred Stock and Class B Common Stock of MJD Communications, Inc., to Class A Common Stock of MJD Communications, Inc., and for other relief. This cause comes on for hearing April 17, 2000, before Donald L. Woods, duly appointed hearing examiner under the authority of the Illinois Commerce Commission. The purpose of today's hearing is for the introduction into evidence of exhibits, the taking of testimony and the cross examination of witnesses, if any.

At this time I take the appearances of the parties, please, beginning with the Company.

1 MR. MUNCY: Dennis K. Muncy, 306 West Church
2 Street, Champaign, Illinois 61820, appearing for the
3 Joint Applicants.

4 EXAMINER WOODS: I understand we also have a
5 number of representatives of Staff here who have
6 reviewed this petition. I would like each Staff
7 member who is going to participate in today's hearing
8 to please state their name, by whom they are
9 employed, the division that they are employed, and
10 their address.

11 MS. HENSLEY: My name is Wanda D. Hensley. I
12 am employed by the Accounting Department, Financial
13 Analysis Division of the Illinois Commerce
14 Commission, business address 527 East Capitol Avenue,
15 Springfield, Illinois 62701. My business phone is
16 area code (217) 785-5442.

17 EXAMINER WOODS: Okay.

18 MR. MCNALLY: Michael McNally, the Finance
19 Department of the Financial Analysis Division of the
20 Illinois Commerce Commission. My address is 527 East
21 Capitol Avenue, Springfield, Illinois 62701. Phone
22 is (217) 557-4214.

1 MR. KOCH: Robert Koch, K-O-C-H,
2 Telecommunications Division, Illinois Commerce
3 Commission, 527 East Capitol, Springfield, Illinois,
4 (217) 524-7911.

5 EXAMINER WOODS: Any additional appearances?
6 Let the record reflect no response.

7 At this time I would ask any witnesses
8 who intend to give testimony today, please stand and
9 raise their right hand.

10 (Whereupon the Witnesses were
11 duly sworn by Examiner
12 Woods.)

13 EXAMINER WOODS: Please proceed, Mr. Muncy.

14 MR. MUNCY: Thank you, Mr. Examiner. I
15 would first like to call Mr. Timothy W. Henry.

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1 T I M O T H Y W. H E N R Y
2 called as a Witness on behalf of the Applicants,
3 having been first duly sworn, was examined and
4 testified as follows:

5 DIRECT EXAMINATION

6 BY MR. MUNCY:

7 Q. Mr. Henry, you were just sworn in, is
8 that correct?

9 A. Yes.

10 Q. Please state your name and business
11 address.

12 A. Yes. Timothy Walter Henry with MJD
13 Communications, Inc. My address is 521 East Morehead
14 Street, Suite 250, Charlotte, North Carolina, zip is
15 28202.

16 Q. And you have prepared testimony for this
17 hearing, Mr. Henry?

18 A. Yes.

19 Q. Do you have a copy of that in front of
20 you?

21 A. Yes.

22 Q. And am I correct that your prepared

1 testimony consists of 15 pages of questions and
2 answers?

3 A. Yes.

4 Q. If I were to ask you the same questions
5 today orally that are set forth in your prepared
6 testimony, would your answers be the same?

7 A. Yes.

8 Q. And you are sponsoring a number of
9 exhibits I would like for you to identify. I am
10 first handing you a copy of what's been marked for
11 identification as Joint Applicants' Exhibit A. Is
12 that a copy of MJD Communications, Inc., corporate
13 structure?

14 A. Yes, sir.

15 Q. I am now handing you what has been
16 marked as Joint Applicants' Proprietary Exhibit B
17 which is a 13-page document and would ask if that is
18 a copy of the Officer's Certificate with attachments
19 that were delivered at the January 14 closing that
20 was referenced in your testimony?

21 A. Yes, January 1.

22 Q. January 1, right?

1 A. Yes, sir, yes.

2 Q. I am now handing you what's been marked
3 as Joint Applicants' Proprietary Exhibit C and would
4 ask if that is a document which is a recapitalization
5 summary showing the various changes and types of
6 stock ownership resulting from the transaction that's
7 before the Commission in this Joint Application?

8 A. Yes, it is.

9 Q. Next I would hand you what's been marked
10 for identification as Joint Applicants' Exhibit D and
11 would ask you if that 18-page document provides
12 biographical information concerning the Thomas H. Lee
13 Company and their funds?

14 A. Yes, it is.

15 Q. And, finally, I am handing you what's
16 been marked for identification as Joint Applicants'
17 Exhibit E and would ask you if that is a copy of this
18 Commission's Order in Docket 99-0027 which you
19 reference in your testimony?

20 A. Yes, it is.

21 MR. MUNCY: Mr. Examiner, at this point in
22 time I would ask that Mr. Henry's prefiled testimony

1 be copied into the record as if orally given and I
2 would offer Joint Applicants' Exhibits A, D and E and
3 Joint Applicants' Proprietary Exhibits B and C.

4 EXAMINER WOODS: Any objection? Documents
5 are admitted without objection.

6 (Whereupon Joint Applicants'
7 Exhibits A, B Proprietary, C
8 Proprietary, D and E were
9 admitted into evidence.)

10 EXAMINER WOODS: The court reporter is
11 directed to spread the testimony as if given orally.

12 PREPARED TESTIMONY OF TIMOTHY W. HENRY

13 Q. Please state your name and business address.

14 A. My name is Timothy W. Henry and my business
15 address is 521 East Morehead Street, Suite 250,
16 Charlotte, North Carolina 28202.

17 Q. What position do you hold with MJD
18 Communications, Inc. ("MJD")?

19 A. I am Vice President of Finance and Treasurer
20 of MJD.

21 Q. At this point, would you briefly describe
22 MJD?

1 A. MJD is a Delaware corporation and is a
2 privately owned telecommunications holding company.
3 MJD ultimately controls operating subsidiaries
4 providing local exchange telecommunications service
5 as incumbent local exchange carriers to approximately
6 150,000 access lines in 12 states. With regard to
7 Illinois, MJD is the ultimate parent corporation of
8 Odin Telephone Exchange, Inc. ("Odin"), C-R Telephone
9 Company ("C-R"), The El Paso Telephone Company ("El
10 Paso") and Yates City Telephone Company ("Yates
11 City"). MJD also ultimately controls subsidiaries
12 that provide competitive local exchange
13 communications services and presently serves
14 approximately 40,000 access lines through those
15 subsidiaries. Other subsidiaries ultimately
16 controlled by MJD provide interexchange services and
17 other telecommunications services.

18 Q. For the record, please identify Joint
19 Applicants' Exhibit "A".

20 A. Joint Applicants' Exhibit "A" is a chart
21 showing the corporate structure of MJD. C-R
22 Communications, Inc., which is identified on the

1 Exhibit, is an intermediary corporation between MJD
2 and C-R. Also on the chart, Ravenswood
3 Communications, Inc., is shown; and it is an
4 intermediary corporation between MJD and El Paso.

5 Q. In addition to your position with MJD, are
6 you also Vice President of Finance and Treasurer of
7 Odin, C-R, El Paso and Yates City?

8 A. Yes, I am.

9 Q. Please indicate the dockets in which this
10 Commission approved MJD's acquisition of Odin, C-R,
11 El Paso and Yates City.

12 A. The first company we acquired in Illinois
13 was Odin, and that acquisition was approved in Docket
14 No. 96-0199. The C-R acquisition was approved by the
15 Commission in Docket No. 97-0328. El Paso was
16 approved in Docket No. 98-0754; and our most recent
17 Illinois acquisition, Yates City, was approved in
18 Docket No. 99-0027.

19 Q. For the record, would you please indicate
20 the number of access lines that are served by Odin,
21 C-R, El Paso and Yates City, respectively?

22 A. As of December 31, 1999, Odin served 1,147

1 access lines, C-R served 936 access lines, El Paso
2 served 2,022 access lines, and Yates City served 567
3 access lines.

4 Q. Has this Joint Application been filed as a
5 result of a recapitalization transaction which MJD
6 has entered into?

7 A. Yes, that's correct. As a result of the
8 recapitalization transaction which I will describe in
9 further detail below, investors have invested in
10 excess of \$400 million in MJD with an additional
11 commitment to invest an added \$50 million in MJD. A
12 portion of the investment was used to purchase equity
13 from certain existing shareholders. The additional
14 equity which has been and will be invested will
15 provide MJD with additional resources for capital
16 investments in its existing operations and to
17 facilitate MJD's growth strategy.

18 Q. Did this Commission approve a previous
19 recapitalization transaction of MJD?

20 A. Yes, it did. The prior recapitalization
21 transaction was approved by the Commission in Docket
22 No. 97-0108 and was also addressed in the C-R

1 acquisition docket (Docket No. 97-0328) since that
2 recapitalization transaction occurred during the time
3 the C-R acquisition was pending. As a result of that
4 recapitalization transaction, substantial investments
5 were made in MJD by Kelso Investments Associates V,
6 L.P., and Kelso Equity Partners V, L.P., which are
7 affiliates of Kelso & Company, a private investment
8 firm, and by Carousel Capital Partners L.P., a
9 partnership set up by Carousel Capital, a private
10 merchant bank.

11 Q. Were the terms of the recapitalization
12 transaction as set forth in the January 4, 2000,
13 Stock Purchase Agreement and entered into between and
14 among MJD, Thomas H. Lee Equity Fund IV, L.P., and
15 certain related parties ("THL Fund IV"), Kelso
16 Investment Associates V, L.P., Kelso Equity Partners
17 V, L.P., the stockholders of MJD set forth in the
18 Stock Purchase Agreement, and Carousel Capital
19 Partners, L.P., submitted as Joint Applicants'
20 Proprietary Exhibit "1" to the Joint Application
21 filed in this proceeding?

22 A. With the caveat that certain terms, Exhibits

1 and Schedules to the Stock Purchase Agreement were
2 amended and restated pursuant to an Officer's
3 Certificate, which was delivered at the initial
4 closing on January 20, 2000, and which I will
5 identify below, the answer is yes.

6 Q. Please identify Joint Applicants'
7 Proprietary Exhibit "B" to your testimony.

8 A. Joint Applicants' Proprietary Exhibit "B" is
9 the Officer's Certificate which was provided at the
10 January 20, 2000, closing of the first phase of the
11 transaction. As is indicated in the Officer's
12 Certificate and Schedule A thereto, certain sections,
13 Exhibits and Schedules to Joint Applicants'
14 Proprietary Exhibit "1" were amended and restated.
15 Relevant to the description of the recapitalization
16 transaction that I will provide below are amendments
17 to Section 4.3 of the Stock Purchase Agreement,
18 Schedule 4.3 and Exhibits A, B, C and D.

19 Q. Please identify and describe Joint
20 Applicants' Proprietary Exhibit "C" to your
21 testimony.

22 A. Joint Applicants' Proprietary Exhibit "C" is

1 entitled MJD Communications, Inc. Recapitalization
2 Summary. I will be referencing this Exhibit in
3 connection with my description of the
4 recapitalization transaction. In particular, I will
5 be referencing the change in ownership of voting
6 Class A Common Stock in light of the requirements of
7 The Illinois Public Utilities Act. Please note on
8 Joint Applicants' Proprietary Exhibit "C" the heading
9 Common indicating the number of Class A Common Shares
10 owned, or potentially owned, at different stages of
11 the transaction and the associated column entitled
12 Common Ownership, which reflects the percentage
13 ownership associated with the shares owned.

14 Q. Does the top section of Joint Applicants'
15 Proprietary Exhibit "C" reflect the ownership of the
16 Class A Common Stock of MJD prior to any activity
17 related to the recapitalization transaction?

18 A. Yes, it does. As is indicated on the
19 Exhibit, the Kelso entities and Carousel each owned
20 697,788 shares of voting Class A Common Stock or an
21 ownership interest of 38.5% for each. The remaining
22 voting shares of the company were owned by a group of

1 founders of MJD and key management and other
2 employees of the company as indicated on that portion
3 of the Exhibit.

4 Q. Please describe the activity that occurred
5 in connection with the closing of the first phase of
6 the transaction on January 20, 2000.

7 A. Carousel Capital Partners V, L.P., exchanged
8 all of its voting Class A Common Stock of MJD for
9 non-voting Series D Preferred Stock which was then
10 purchased by Thomas H. Lee Equity Fund IV, L.P., and
11 certain related parties, which I will refer to as THL
12 Fund IV. Several individual management stockholders
13 also exchanged a portion of their Class A Common
14 Stock of MJD for non-voting Series D Preferred Stock,
15 which was also purchased by THL Fund IV. THL Fund
16 IV, which made a total investment of approximately
17 \$282 million on January 20, 2000, purchased
18 additional shares of Series D Preferred Stock from
19 MJD in connection with the remainder of its
20 investment. As a result of those transactions, THL
21 Fund IV now owns 1,073,096 shares of non-voting
22 Series D Preferred Stock.

1 As another portion of the closing on January
2 20, 2000, the Kelso entities exchanged 415,000 shares
3 of their previously owned voting Class A Common Stock
4 for 415,000 shares of non-voting Class B Common Stock
5 of MJD. In connection with the Kelso entities'
6 additional equity investment of approximately \$70
7 million, they also purchased and received 212,186.4
8 additional shares of non-voting Class B Common Stock.

9 Finally, unrelated institutional investors
10 invested an additional \$56 million in MJD on January
11 20, 2000, and received 213,472 shares of non-voting
12 Class C Common Stock.

13 Q. Are the transactions you have just described
14 reflected in the middle two sections of Joint
15 Applicants' Proprietary Exhibit "C"?

16 A. Yes, they are. The unrelated institutional
17 investors who received non-voting Class C Common
18 Stock are designated as "New Bank Investors" and
19 Magnetite" on the Exhibit.

20 With regard to the voting Class A Common
21 Stock of MJD as is indicated on the Exhibit, the
22 Kelso entities now own 282,788.4 shares out of a

1 total of 571,117.4 shares of approximately 49.5%.
2 Individual shareholders own the remaining shares of
3 voting Class A Common Stock, with the largest
4 individual investor owning 107,757 shares or
5 approximately 18.9% of the voting Class A Common
6 Stock.

7 Q. Pursuant to the terms of the Stock Purchase
8 Agreement, will the Series D Preferred Stock now
9 owned by THL Fund IV automatically convert on a
10 1-for-1 basis to voting Class A Common Stock of MJD
11 upon receipt of all necessary regulatory approvals?

12 A. Yes, that is correct. The conversion will
13 only occur after receipt of all necessary regulatory
14 approvals, including the approval from this
15 Commission. As is shown on Joint Applicants'
16 Proprietary Exhibit "C", THL Fund IV owns 1,073,086
17 shares of Series D Preferred Stock, which would
18 convert to a like number of Class A Common Stock of
19 MJD.

20 Q. On a similar basis, pursuant to the terms of
21 the Stock Purchase Agreement, will all of the
22 non-voting Class B Common Stock now owned by the

1 Kelso entities convert on a 1-for-1 basis to Class A
2 Common Stock upon receipt of all required regulatory
3 approvals?

4 A. Yes. The Kelso entities presently own
5 627,186.4 shares of non-voting Class B Common Stock
6 in addition to their present ownership of 282,788.4
7 shares of Class A Common Stock of MJD.

8 Q. If the necessary regulatory approvals are
9 obtained and the conversions you have described were
10 to occur, what would be the ownership interests of
11 the Class A Common Stock of MJD?

12 A. The result is reflected at the bottom
13 portion of Joint Applicants' Proprietary Exhibit "C".
14 As is indicated, upon conversion there will be
15 2,271,389.8 issued and outstanding shares of Class A
16 Common Stock. 1,073,086 shares would be owned by THL
17 Fund IV or approximately 47.2%. The Kelso entities
18 would own 909,974.8 shares or approximately 40.1%.
19 The remaining individual shareholders would
20 collectively own 288,320 shares or approximately
21 12.7%.

22 Q. In addition to the transactions you have

1 described that occurred on January 20, 2000, has THL
2 Fund IV made a commitment to invest an additional \$50
3 million in MJD?

4 A. Yes, that is correct. In connection with
5 THL Fund IV's fulfillment of that additional
6 investment commitment, they would acquire an
7 additional 190,600 shares of Class A Common Stock.
8 This commitment and transaction are not reflected on
9 Joint Applicants' Proprietary Exhibit "C". At the
10 time this commitment is fulfilled, it will increase
11 THL Fund IV's ownership of Class A Common Stock to
12 1,263,686 shares or approximately 51.3% of the
13 ownership of the voting Class A Common Stock of MJD.

14 Q. For the record, please describe and give
15 some background regarding Thomas H. Lee entities.

16 A. Thomas H. Lee Equity Fund IV, L.P., is a
17 limited partnership formed under the laws of
18 Delaware. Managing approximately \$3.45 billion,
19 Thomas H. Lee Equity Fund IV, L.P., is one of four
20 funds managed by Thomas H. Lee Company, a
21 Boston-based investment company focused on acquiring
22 substantial investments in growth companies. Founded

1 in 1974, the firm and its affiliates currently manage
2 approximately \$6 billion in committed capital.
3 Attached to my testimony as Joint Applicants' Exhibit
4 "D" is information related to Thomas H. Lee Company,
5 which describes its history, investment philosophy,
6 key strengths, investment guidelines and funds under
7 its management. It also provides information
8 concerning representative investments and information
9 concerning its key employees.

10 Q. Will the recapitalization transaction you
11 have described affect the management and day-by-day
12 operations of MJD?

13 A. No, it will not. That said, the
14 recapitalization transaction is an extremely
15 significant event in our company's history. It
16 provides MJD with substantial additional resources
17 for capital investments. MJD will also have access
18 to the expertise of Thomas H. Lee Company's staff
19 which, among other abilities, is specifically skilled
20 in corporate finance and strategic corporate
21 planning. The recapitalization transaction has made
22 MJD and its affiliates, including Odin, C-R, El Paso

1 and Yates City, even stronger and more financially
2 viable companies with an enhanced ability to make
3 continued investments in telecommunications
4 technology.

5 Q. Please describe the specific approvals
6 sought by the Joint Application filed in this
7 proceeding.

8 A. It is our understanding that the conversion
9 of the Series D Preferred Stock and the Class B
10 Common Stock of MJD of Class A Common Stock of MJD
11 and the acquisition by THL Fund IV of the additional
12 shares of Class A Common Stock upon their fulfillment
13 of the additional \$50 million commitment, which
14 collectively (when coupled together) will result in
15 THL Fund IV owning 51.3% of the voting Class A Common
16 Stock of MJD, requires this Commission's approval
17 under Sections 7-203 and 7-204 of The Public Utilities
18 Act. The Joint Application seeks those approvals.
19 Specifically, the Joint Application seeks approval of
20 the right to convert the Series D Preferred Stock and
21 the Class B Common Stock of MJD to Class A Common
22 Stock of MJD and the additional acquisition of Class

1 A Common Stock by THL Fund IV pursuant to the
2 additional commitment.

3 Q. Turning to the required findings under
4 Section 7-204, do you have any general comments
5 concerning the recapitalization transaction, the
6 approvals being sought, and the effect of the
7 transaction on Odin, C-R, El Paso and Yates City?

8 A. As I have testified, MJD is a privately
9 owned and growing company, as evidenced by our
10 acquisition of the four companies in Illinois within
11 the last four years. The recapitalization
12 transaction will allow MJD to maintain, and in fact,
13 accelerate our growth strategy.

14 While an extremely significant event for our
15 company, this transaction is all about the infusion
16 of substantial additional capital in the holding
17 company -- the ultimate parent level. The
18 transaction will not change the management or
19 day-to-day operations of MJD or the four Illinois
20 local exchange carriers. I have previously described
21 the overall benefits to MJD and all of its
22 subsidiaries, including the Illinois companies, as a

1 result of the transaction.

2 In addition to approving a previous
3 recapitalization transaction of our company, this
4 Commission has within the last four years found on
5 four separate occasions that MJD's acquisition of
6 Illinois local exchange carriers met the requirements
7 of Section 7-204 of the Illinois Act and all other
8 applicable requirements. This recapitalization
9 transaction and the approvals sought is just another
10 step forward for our company.

11 Q. Please identify Joint Applicants' Exhibit
12 "E" to your testimony.

13 A. Joint Applicants' Exhibit "E" is a copy of
14 this Commission's Order in Docket No. 99-0027 entered
15 on July 8, 1999, approving our latest acquisition,
16 the acquisition of Yates City. I will be referring
17 to this Exhibit subsequently in my testimony.

18 Q. Will the transactions for which approval is
19 being sought affect Odin's, C-R's, El Paso's and/or
20 Yates City's ("the Illinois ILECs") abilities to
21 perform their respective duties under the Act?

22 A. No, they will not. As I have already

1 testified, the transactions for which approval is
2 being sought in connection with the recapitalization
3 will in no way affect the abilities of the four
4 Illinois companies to perform their respective duties
5 under The Illinois Public Utilities Act.

6 Q. Will the transactions for which approval is
7 being sought diminish the Illinois ILECs' abilities
8 to provide adequate, reliable, safe and least-cost
9 public utility service?

10 A. No, they will not. As I previously
11 indicated, the recapitalization transaction has made
12 MJD and its affiliates, including the Illinois ILECs,
13 stronger and more financially viable companies with
14 an enhanced ability to make continued investments in
15 telecommunications technology. I would also point
16 out that at pages 3 and 4 of the Joint Applicants'
17 Exhibit "E", the Commission's Order references in
18 detail our track record of making capital
19 expenditures to maintain and enhance the services
20 that the Illinois ILECs provide to their customers.

21 Q. Will the transactions for which approval is
22 being sought result in any unjustified subsidization

1 of non-utility activities by the Illinois ILECs or
2 their respective customers?

3 A. No. The transactions for which approval is
4 being sought and the recapitalization transaction at
5 the MJD level simply have no effect with regard to
6 this criteria. Simply put, there will be no
7 unjustified subsidization of non-utility activities
8 by the Illinois ILECs, or their respective customers,
9 as a result of these transactions.

10 Q. Will the costs and facilities of the
11 Illinois ILECs be fairly and reasonably allocated
12 between utility and non-utility activities in such a
13 manner that the Commission may identify those costs
14 and facilities properly included by the respective
15 Illinois ILECs for rate making purposes?

16 A. Yes, they will. Once again, this
17 transaction has no impact on the allocations you
18 reference.

19 Q. Will the transactions for which approval is
20 being sought impact the Illinois ILECs' abilities to
21 raise the necessary capital on reasonable terms or to
22 maintain a reasonable capital structure?

1 A. No, they will not. The recapitalization
2 transaction has already provided additional capital
3 resources at the MJD level, and the fulfillment of
4 the additional \$50 million commitment by THL Fund IV
5 will provide yet further capital resources and
6 abilities at the MJD level.

7 Q. Do MJD and the Illinois ILECs understand
8 that if this Joint Application is approved, the
9 Illinois ILECs will remain subject to all applicable
10 laws, regulations, rules, decisions and policies
11 governing the regulation of Illinois public
12 utilities?

13 A. Yes, we do. On behalf of each of the Joint
14 Applicants, I acknowledge that fact.

15 Q. Will the transactions for which approval is
16 being sought have a significant adverse effect on
17 competition in those markets over which the
18 Commission has jurisdiction?

19 A. No. The transactions for which approval is
20 being sought and the recapitalization of MJD will
21 have no effect on competition in the markets over
22 which the Commission has jurisdiction and are being

1 served by each of the Illinois ILECs. I would then
2 comment that the areas served by Odin, C-R, El Paso
3 and Yates City are rural areas; and presently, there
4 are no other local wireline service providers
5 offering service in the areas served by any of the
6 companies. The rates and services of each of the
7 four companies are presently considered
8 non-competitive.

9 Q. Will the transactions for which approval is
10 being sought likely result in any adverse rate
11 impacts on retail customers of any of the Illinois
12 ILECs?

13 A. No. Neither MJD nor any of the Illinois
14 ILECs have any plans to change existing tariffs or
15 rates as a result of the approval being sought by the
16 Joint Application or the recapitalization
17 transaction. While the transactions for which
18 approval is being sought will have no adverse rate
19 impacts on retail customers, generic changes related
20 to issues such as access charge reform and universal
21 support could affect the rates of many local exchange
22 carriers, including Odin, C-R, El Paso and Yates

1 City.

2 Q. With regard to Section 7-204(c), have the
3 Joint Applicants projected any savings will occur as
4 a result of the transactions for which approval is
5 being sought?

6 A. No. We are not projecting that any of the
7 four Illinois ILECs will achieve any savings nor do
8 we believe they will incur any incremental increase
9 in costs in their regulated intrastate operations as
10 a result of the transactions for which approval is
11 being sought. Stated another way, we are not
12 projecting any quantifiable change in the Operating
13 Statements of any of the Illinois ILECs on either the
14 upside or the downside as a result of these
15 transactions.

16 Q. Are the Joint Applicants asking that the
17 Commission allow the recovery of any costs incurred
18 in accomplishing the transactions for which approval
19 is being sought that would require a determination by
20 the Commission on whether that cost recovery should
21 be allowed, and if so, the amount of costs eligible
22 for recovery and how those costs will be allocated?

1 A. The Joint Applicants are not seeking, by
2 this Joint Application, the recovery of any costs
3 incurred in connection with the transactions for
4 which approval is being sought.

5 Q. Does that complete your testimony?

6 A. Yes, it does.

7 (Conclusion of the Prepared
8 Testimony of Timothy W.
9 Henry)

10 EXAMINER WOODS: Anything further?

11 MR. MUNCY: Nothing further at this time;
12 and we will likely have to come back with Mr. Henry
13 later.

14 EXAMINER WOODS: Mr. Koch, I understand you
15 have marked a statement which you wish to have
16 introduced into the record, is that correct?

17 MR. KOCH: Yes.

18 EXAMINER WOODS: We will have the court
19 reporter mark that as Staff Exhibit 1. Would you
20 describe that, please?

21 MR. KOCH: It is a statement I have put
22 together. It has five pages consisting of two

1 sections, one of which states the requirements of the
2 Public Utilities Act under Section 7-204. And the
3 second section is a Staff analysis of the application
4 as it relates to 7-204.

5 EXAMINER WOODS: Are there any corrections
6 to be made to that document?

7 MR. KOCH: Yes, there are.

8 EXAMINER WOODS: Would you describe those
9 corrections, please?

10 MR KOCH: The third page, the very last line
11 of the page, "satisfied the requirements of Section"
12 and where it says 702.b.4, it should read 7-204.b.4.

13 Then on the following page, fifth line
14 down where it says "Section 702.c," it should read
15 "Section 7-204.c".

16 Then three lines down from that, there
17 are -- under Section, it says "Section 702" where it
18 should read "Section 7-204".

19 Also, I have noticed at this time that
20 on the third page there is a section heading which is
21 just a Roman Numeral I. It should be Roman Numeral
22 II. Those are all the corrections.

1 EXAMINER WOODS: Have those corrections been
2 made on the documents that have been marked by the
3 court reporter or will they be?

4 MR. KOCH: Yes, they will be within a moment
5 here.

6 EXAMINER WOODS: Any objection to that
7 document, Mr. Muncy?

8 MR. MUNCY: No objection.

9 EXAMINER WOODS: The document is admitted
10 without objection.

11 (Whereupon ICC Staff Exhibit 1
12 was marked for purposes of
13 identification as of this
14 date and admitted into
15 evidence.)

16 EXAMINER WOODS: Mr. Koch, do you have a
17 position in this docket?

18 MR. KOCH: I see no reason why this
19 application should not be granted.

20 MR. MCNALLY: My name is Mike McNally again.
21 Based on my review of the Companies' Testimony,
22 Petition Testimony and Data Request Responses, I

1 believe the proposed reorganization will not
2 significantly impair the utility's ability to raise
3 necessary capital on reasonable terms or to maintain
4 a reasonable capital structure. Therefore, from a
5 financial perspective I recommend that the Commission
6 approve the proposed reorganization of the Joint
7 Application.

8 EXAMINER WOODS: Thank you. Ms. Hensley.

9 MS. HENSLEY: My name is Wanda Hensley. I
10 am with the Accounting Department. I have reviewed
11 the filing of MJD Communications, Inc., and data
12 request responses in accordance with Section 7-203
13 and Section 7-204 of the Public Utilities Act.

14 Under Section 7-204, Paragraph C, the
15 Company claims that there are no cost savings
16 resulting from the proposed reorganization and the
17 Company will not recover any costs incurred in
18 accomplishing the proposed reorganization through the
19 rates charged to the ratepayers. The Company further
20 claims that all costs incurred will be offset against
21 the proceeds received from the sale of equity.

22 From an accounting perspective, I would

1 recommend that the Commission approve the Joint
2 Application.

3 EXAMINER WOODS: Okay. I thought I had
4 understood that there were some conditions to be
5 attached, is that correct?

6 MR. MUNCY: They were contained in
7 Mr. Koch's statement. And perhaps if I can --

8 EXAMINER WOODS: Okay, Mr. Muncy.

9 MR. MUNCY: If I can recall Mr. Henry?

10 EXAMINER WOODS: He is still under oath.

11 THE WITNESS: Yes, sir.

12 REDIRECT EXAMINATION

13 BY MR. MUNCY:

14 Q. Mr. Henry, first, you have previously
15 reviewed and now review again the four conditions
16 that Mr. Koch is recommending that are set forth on
17 pages 4 and 5 of his testimony as Numbered I through
18 IV under Sub C of his presentation?

19 A. Yes, I have.

20 Q. And are the Joint Applicants willing to
21 agree to those four conditions that are set forth in
22 Mr. Koch's statement?

1 A. Yes.

2 Q. Will the Joint Applicants also agree not
3 to allocate or charge to any of the Illinois ILECs,
4 namely Odin, C-R Telephone Company, El Paso and Yates
5 City any costs or charges to MJD from the THL Fund
6 IV? Is that agreeable?

7 A. We would agree to that, yes.

8 MR. MUNCY: Mr. Examiner, I believe with
9 that supplemental testimony the Joint Applicants have
10 agreed to the four items that are the subject matter
11 of discussions with Staff as far as conditions or
12 rates.

13 EXAMINER WOODS: What's the THL Fund IV?

14 MR. MUNCY: That is the Company that has
15 made an investment in, a capital investment, in MJD
16 Communications.

17 EXAMINER WOODS: I just wanted to make sure
18 it wasn't a Universal Service Fund.

19 MR. MUNCY: On a different day.

20 EXAMINER WOODS: Anything further at this
21 time, Mr. Muncy?

22 MR. MUNCY: Nothing.

1 MS. HENSLEY: Mr. Examiner, may I go off the
2 record, please?

3 EXAMINER WOODS: Sure.

4 (Whereupon there was then had
5 an off-the-record
6 discussion.)

7 EXAMINER WOODS: Go back on the record.
8 Anything further, Mr. Munson?

9 MR. MUNSON: No, Mr. Examiner.

10 EXAMINER WOODS: Anything further from
11 Staff? No further proceedings at this time, this
12 docket is marked heard and taken. Thank you all very
13 much.

14 HEARD AND TAKEN

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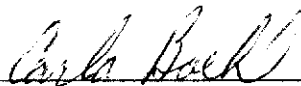
1 STATE OF ILLINOIS)
)SS
2 COUNTY OF SANGAMON)
CASE NO.: 00-0161
3 TITLE: MJD COMMUNICATIONS, INC., ODIN TELEPHONE
EXCHANGE, INC., C-R TELEPHONE COMPANY, EL PASO
4 TELEPHONE COMPANY and YATES CITY TELEPHONE COMPANY

5 CERTIFICATE OF REPORTER

6 I, Carla J. Boehl, do hereby certify that I am a
7 court reporter contracted by Sullivan Reporting
8 Company of Chicago, Illinois; that I reported in
9 shorthand the evidence taken and proceedings had on
10 the hearing on the above-entitled case on the 17th
11 day of April, 2000; that the foregoing 37 pages are a
12 true and correct transcript of my shorthand notes so
13 taken as aforesaid and contain all of the proceedings
14 directed by the Commission or other persons
15 authorized by it to conduct the said hearing to be so
16 stenographically reported.

17 Dated at Springfield, Illinois, on this 1st day
18 of May, A.D., 2000.

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Certified Shorthand Reporter